Second Quarter Update

For the six months ended September 30, 2006

Heritage Fund

06-07

Alberta Heritage Savings Trust Fund

Alberta

Alberta Heritage Savings Trust Fund
Alberta Finance – Communications
Room 434, 9515 - 107 Street
Edmonton, Alberta T5K 2C3
(780) 427-5364

www.albertaheritagefund.com

SECOND QUARTER UPDATE

SEPTEMBER 30, 2006

Alberta Heritage Savings Trust Fund

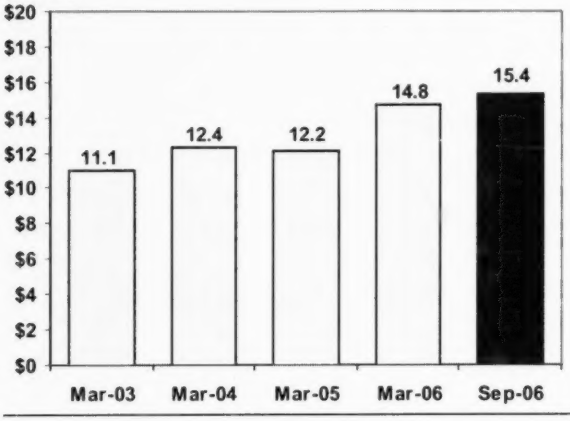
QUARTER IN REVIEW

The net assets of the Alberta Heritage Savings Fund (the Fund) increased by $995 million in the second quarter of 2006-07. Contributions, inflation-proofing and unrealized capital gains accounted for the increase during the quarter. Taking into account unrealized capital losses and inflation-proofing in the first quarter, the total increase over six months was $573 million. At September 30, 2006, the fair value of the Fund's net assets totalled $15.4 billion compared to $14.4 billion at June 30, 2006 and $14.8 billion at March 31, 2006.

In September, the Government transferred $650 million into the Fund from the General Revenue Fund (GRF). In addition, $71 million this quarter and $142 million over six months was retained in the Fund to protect its value from inflation. All of the Fund's investment income is transferred to the Province's general revenues except for the amount retained in the Fund for inflation-proofing. The Fund's unrealized capital gain on investments totalling $274 million during the quarter partially offset last quarter's unrealized capital loss of $493 million, resulting in a net overall unrealized capital loss of $219 million over six months.

Fair Value of Heritage Fund Net Assets

(billions)



The Fund's second quarter investment income of $331 million and unrealized capital gain of $274 million accounted for the investment return of 4.1% this quarter compared to 3.4% for the same period last year. Over six months, the Fund's investment income of $503 million and unrealized capital loss of $219 million accounted for the investment return of 1.9%. In the first six months of last year, the Fund reported investment income of $646 million and unrealized capital gain of $196 million for a return of 6.9%. The market correction in the first quarter of 2006-07 and decline in value of investments resulted in lower investment income and returns over six months compared to the same period last year.

The following table summaries the change in major world equity and bond market indices during the quarter and six months ended September 30, 2006.

Major Global Indices

Period ended September 30, 2006

	2nd Quarter	Year to Date 2006-07	Year to Date 2005-06
Stock Markets			
Canadian			
S&P/TSX Composite Index	1.9	(1.7)	15.6
United States			
S&P 1500 Index (US $)	4.8	3.0	5.6
S&P 1500 Index (Cdn $)	4.9	(1.5)	1.3
Non-North American			
MSCI EAFE Index (Cdn $)	4.0	0.0	4.9
Canadian Bond Market			
SC Bond Universe Index	4.9	3.8	4.6

The Canadian stock market, represented by the S&P/TSX Index, increased by 1.9% this quarter. The increase partially offset last quarter's decrease of 3.5% for an overall net decrease of 1.7% over six months.

In the S&P/TSX Index, the telecommunication services and information technology sectors had the greatest increases while the health care and energy sectors had the largest declines. While unemployment, inflation and interest rates remain relatively low, the manufacturing industry in central Canada struggled amid a stronger Canadian dollar and increased overseas competition. Oil prices continued to slip; West Texas Intermediate closed the quarter at $62.91 U.S. per barrel compared to $73.93 U.S. per barrel at the beginning of the quarter.

The Canadian dollar remained largely unchanged from the beginning of the quarter but was stronger overall since the beginning of the year. One U.S. dollar purchased $1.12 Canadian at September 30, 2006 compared to $1.17 Canadian at March 31, 2006. When the Canadian dollar is stronger, the value of the Fund investment in U.S. equities decreases when translated into Canadian dollars, resulting in lower investment returns. Over the past three months, the U.S. market measured by the S&P 1500 Index increased by 4.9% when translated into Canadian dollars.

The non-North American market measured by the MSCI EAFE Index increased by 4.0% this quarter in Canadian dollars.

Change in Net Assets

The Fund accounts for its investments and investment income using the cost basis of accounting. Investments and investment income recorded on a cost basis exclude unrealized gains and losses. Investment income on a fair value basis includes changes in unrealized gains and losses during the period. The investment income on a fair value basis for the three months and six months ended September 30, 2006 was $605 million and $284 million respectively.

At September 30, 2006, the fair value of investments was $15.4 billion compared to the cost of investments of $14.3 billion (see page 17). The accumulated unrealized gain of $1.107 billion was up $274 million from June 30, 2006 and down $219 million from March 31, 2006.

Change in Fair Value of Net Assets

(millions)

	2nd Quarter	Year to Date 2006-07	2005-06
Net assets, beginning of period	**$ 14,398**	**$ 14,820**	**$ 12,222**
Investment income, cost basis (1)	331	503	646
Transfers to the GRF (2)	(260)	(361)	(499)
Amount retained for inflation proofing	71	142	147
Increase (decrease) in accumulated unrealized gains on investments	274	(219)	196
Transfers from GRF:			
Surplus allocation	400	400	-
Access to the Future	250	250	-
Total increase in net assets	**995**	**573**	**343**
Net assets, end of period	**$ 15,393**	**$ 15,393**	**$ 12,565**

(1) Investment income includes interest, dividends, realized gains and losses, derivative income and administration expenses.
(2) Section 8(2) of the *Alberta Heritage Savings Trust Fund Act* states that the net income of the Fund, less any amount retained in the Fund to maintain its value, shall be transferred to the GRF.

Summary of Net Assets (at fair value)

(millions)

	Sept 30, 2006	March 31, 2006
Investments (see Note 3 to F/S)	$ 15,407	$ 15,007
Accrued income and receivables	25	27
Accounts payable	-	(136)
Due to the GRF	(39)	(78)
Net assets, end of period	**$ 15,393**	**$ 14,820**

INVESTMENT INCOME

The Fund's net income of $503 million over the first six months of fiscal 2006-07 was lower than the income of $646 million recorded for the same period last year. Over six months, interest, dividends, real estate income and security lending income totalled $293 million net of administrative expenses, compared to $236 million for the same period last year. Net realized capital gains from sale of securities and gains and losses from derivative transactions totalled $210 million over six months, compared to $410 million for the same period last year.

Net Investment Income (Loss)

(millions)

	Fixed Income	Equity Income	Real Estate	Other (1)	Total
06-07 6 mos.	$ 149	$ 275	$ 46	$ 33	$ 503
05-06	318	951	90	38	1,397
04-05	264	728	68	32	1,092
03-04	304	737	54	38	1,133
02-03	286	(1,224)	39	5	(894)

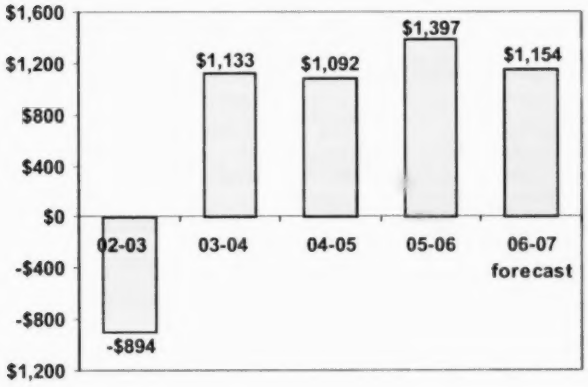
(1) Includes income from private equities, private income, timberland, and absolute return strategies.

2006-07 GOVERNMENT ESTIMATES

Forecast Income

The Fund's forecast income is reviewed and updated as the year progresses. The estimated forecast income for the year is currently $1.154 billion. This represents an increase of $237 million from the Fund's original budgeted income at the beginning of the year totalling $917 million, which is included in the 2006-07 Government Estimates. The increase is due to an improvement in world equity markets in the second quarter and higher than expected realized capital gains. On a consolidated basis, after the elimination of income from Alberta provincial corporation securities, the forecast income is $1.117 billion.

Hertiage Fund Investment Income
(millions)



Forecast Inflation Proofing

In order to maintain the value of the Fund, the 2006-07 Government Estimates provided for inflation proofing of the Fund in the amount of $242 million. The inflation-proofing forecast was subsequently increased by $41.4 million to $283.4 million due to an increase in the estimate of inflation for the year. Half of this amount or $141.7 million has been accrued for the first six months of fiscal 2006-07. The net income earned by the Fund, less the amount retained in the Fund for inflation proofing is transferred to the Province's main operating fund, the General Revenue Fund.

Forecast Transfers into the Fund

The 2006-07 Government Estimates included $1 billion to be transferred into the Fund from the Government's allocated surplus. In September, $400 million of this amount was transferred from GRF to the Fund. Also in September, an additional $250 million was transferred into the Fund from GRF under the *Access to the Future Act* (see Note 6 (a) to the financial statements). Transfers from GRF are recorded when received.

TRANSFERS TO THE GRF

At September 30, 2006, the outstanding transfers payable to the GRF totalled $39 million.

	(millions)
Due to GRF at March 31, 2006	$ 78
Add: Net income earned for six months	503
Less: Amount retained for inflation proofing	(142)
Less: Payment to GRF during the period	(400)
Due to GRF at September 30, 2006	$ 39

INVESTMENTS

Asset Mix

The investment strategy is to invest in a diversified portfolio to maximize long-term returns at an acceptable level of risk. The policy asset allocation is reported in the Fund's 2006-09 business plan as follows:

Investment Mix Policy
(percent of fair value)

	Long Term Policy Asset Mix	Actual Asset Mix Sept 06	Actual Asset Mix Mar 06
ASSET CLASS			
Fixed income			
Money market	1.0	1.0	2.0
Fixed income securities	29.0	31.8	31.3
	30.0	**32.8**	**33.3**
Public equities			
Canadian	15.0	16.2	17.0
United States	15.0	16.9	16.8
Non-North American	15.0	16.3	16.8
	45.0	**49.4**	**50.6**
Real estate	**10.0**	**10.1**	**9.6**
Absolute return strategies	**5.0**	**4.2**	**3.8**
Private equities	**4.0**	**2.2**	**1.7**
Private income	**4.0**	**0.9**	**0.6**
Timberland	**2.0**	**0.4**	**0.4**
	100.0	100.0	100.0

Investments are made within a range of the long-term policy asset mix, taking into account the specific asset class and transition period required. The long-term policy asset mix for the Fund consists of fixed income securities (30%), public equities (45%), real estate (10%) and alternative investments (15%). Alternative investments include absolute return strategies, private equities, private income and timberland. These investments are in a relatively illiquid asset class and require time to build up to their target asset mix.

The actual investment mix for fixed income securities decreased slightly to 32.8% from 33.3% at the beginning of the year while public equity investments decreased to 49.4% from 50.6%. Real estate investments increased to 10.1% from 9.6% of the Fund's total investment portfolio. Absolute return strategies increased to 4.2% from 3.8%. Private equity investments increased to 2.2% from 1.7%. Private income investments increased to 0.9% from 0.6%. Timberland investments were unchanged from the beginning of the year at 0.4%.

Investment Valuation

Investments and investment income are recorded on the financial statements of the Fund at cost in accordance with government accounting policies. The fair value of the Fund and its investments are provided for information purposes. Management uses fair value to assess the investment performance of the fund against market-based benchmarks.

The Fund's policy is to write-down the cost of those securities where the decline in value below cost is not considered temporary. On a quarterly basis, management reviews the Fund's investment portfolio to identify those securities where the fair value has declined significantly below cost. Based on management's review this quarter, additional write-downs of $12.82 million were recorded, bringing total write-downs for the first six months of 2006-07 to $22.99 million.

ADMINISTRATIVE EXPENSES

Income from pooled investment funds is net of internal management expenses and external management fees. Internal management expenses include those expenses recovered by Alberta Finance for management of the Fund and investment pools. External fees include fees charged to investment pools by external investment managers based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools.

The Fund's total administrative expenses for the six months ended September 30, 2006, including amounts deducted from the investment income of the pooled funds, amounted to $23.54 million or 0.15% of the Funds net assets at fair value compared to $21.66 million or 0.17% of net assets the previous period.

ADMINISTRATIVE EXPENSE BREAKDOWN

Six months ended September 30, 2006 (thousands)

	Six Months Ended	
	Sept 30, 2006	Sept 30, 2005
Internal expenses:		
Direct fund	$ 850	$ 1,211
Investment pools	1,642	2,431
	2,492	3,642
External expenses:		
Investment pools	21,045	18,018
Total expenses	$ 23,537	$ 21,660
Fair value end of period	$ 15,393,268	$ 12,564,279
Expenses as a percent of net assets at fair value	0.15%	0.17%

Internal expenses decreased by $1.15 million compared to the same period last year. The decrease was due to the timing and recognition of expenses rather than an actual decrease in costs. Internal expenses billed to the Fund during the past six months are based on actual costs to date. In the previous period, internal expenses were charged to the Fund based on equal monthly billings. External fees increased by $3.027 million compared to the same period last year. The increase in external manager fees is due to the increases in the fair value of investments and increases in alternative investments.

PERFORMANCE MEASUREMENT

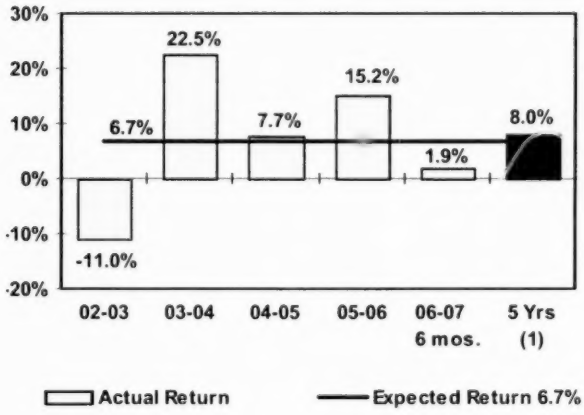
Heritage Fund Rate of Return

The Fund's return of 4.1% this quarter offsets the negative return of 2.2% last quarter resulting in an overall return of 1.9% in the first six months of 2006-07. The investment return of 4.1% this quarter and 1.9% over six months exceeded their respective policy benchmarks by 20 basis points.

The performance of the Fund is measured over the long term. Over the past five-year period, the Fund generated a nominal annualized return of 8.0% compared to the expected nominal long-term rate of return of 6.7%. The expected nominal annualized return of 6.7% includes the real rate of return of 4.5% plus annualized inflation of 2.2% over a moving five-year period.

Heritage Fund Annual Returns and Annualized 5-Year Return

(at fair value)



(1) Annualized

The performance of the Fund investments is measured against various market-based indices. Value-added by investment management is accomplished through asset mix decisions and security selection.

Comparison of Actual Returns to Benchmarks

Time Weighted Rates of Return
(percent)

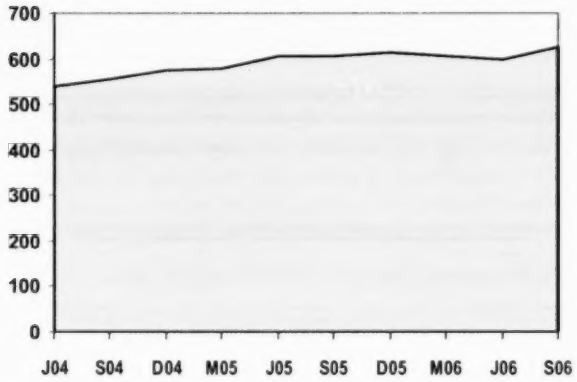
	2nd Quarter	Year to Date 2006-07	Year to Date 2005-06	Five Years (2)
OVERALL RETURN (1)	**4.1**	**1.9**	**6.9**	**8.0**
ENDOWMENT PORTFOLIO				
ST fixed income	**0.7**	**1.6**	**1.3**	**2.8**
SC 91-Day T-Bill	*1.1*	*2.1*	*1.2*	*2.8*
LT fixed income	**5.0**	**4.1**	**5.3**	**7.7**
SC Universe Bond Index	*4.9*	*3.8*	*4.6*	*6.9*
Canadian public equities	**2.6**	**(0.8)**	**16.0**	**14.2**
S&P/TSX Index	*1.9*	*(1.7)*	*15.6*	*13.6*
US public equities	**5.0**	**(1.5)**	**0.8**	**0.0**
S&P 1500 Index (3)	*4.9*	*(1.5)*	*1.3*	*(0.1)*
Non North American equities	**4.0**	**(1.3)**	**7.0**	**7.4**
MSCI EAFE Index	*4.0*	*0.0*	*4.9*	*6.6*
Real estate	**4.7**	**8.8**	**6.7**	**13.5**
IPD Large All Property Index (4)	*4.8*	*7.6*	*5.1*	*10.7*
Absolute return strategies	**1.3**	**2.6**	**2.0**	**n/a**
HFRX Global Hedged Index (5)	*0.4*	*(0.5)*	*5.1*	*n/a*
Private equities	**1.4**	**4.8**	**6.9**	**n/a**
CPI Plus 8.0%	*2.0*	*5.5*	*5.6*	*n/a*
Private income	**1.1**	**4.3**	**18.3**	**n/a**
CPI plus 6.0%	*1.5*	*4.5*	*4.7*	*n/a*
Timberland	**0.8**	**3.0**	**n/a**	**n/a**
CPI plus 4.0%	*1.1*	*3.6*	*n/a*	*n/a*
Total Endowment Portfolio	**4.1**	**1.9**	**6.9**	**8.2**
Policy Benchmark (6)	*3.9*	*1.7*	*6.2*	*7.4*

(1) The overall return for five years includes the Endowment Portfolio and the past returns of the Transition Portfolio which was wound up in the first half of 2002-03.
(2) Returns for five years are annualized.
(3) Prior to April 1, 2004, the benchmark for U.S. equities was the S&P500 Index.
(4) Benchmark returns are estimated and may vary significantly from actual amounts when received. Prior to June 1, 2005, the benchmark for real estate was CPI plus 5%. Prior to April 1, 2002, the benchmark was the Russell Canadian Property Index.
(5) Prior to July 1, 2005, the benchmark return was the CPI plus 6%.
(6) The Policy benchmark returns are the product of the weighted average policy sector weights and the sector benchmark returns.

Fixed Income Investments

The Scotia Capital (SC) Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. The SC Universe Bond Index increased by 4.9% over the quarter and 3.8% over six months while the short term SC 91-Day T-Bill Index increased by 1.1% over the quarter and 2.1% over six months.

SC Universe Bond Index



LT Fixed Income	Actual Return %	Benchmark SC Universe Bond Index %	Over (Under) bps*
Current Quarter	5.0	4.9	10
Six Months	4.1	3.8	30
Five Years (annualized)	7.7	6.9	80

ST Fixed Income	Actual Return %	Benchmark SC 91-Day T-Bill Index %	Over (Under) bps*
Current Quarter	0.7	1.1	(40)
Six Months	1.6	2.1	(50)
Five Years (annualized)	2.8	2.8	0

* one basis point equals 0.01%.

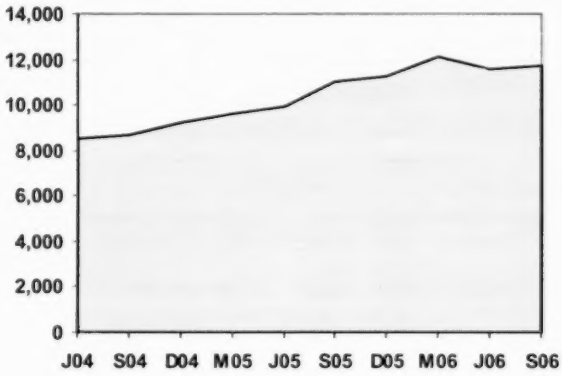
The Fund's actual rate of return over the quarter from long-term Canadian fixed income securities was 5.0%, 10 basis points better than the benchmark SC Universe Bond Index. Over six months, the return from long-term fixed income securities was 4.1% or 30 basis points better than the benchmark of 3.8%. The Fund's return from short-term securities was 0.7% over three months and 1.6% over six months. The Fund's fixed income portfolio is internally managed through various pools and through direct holdings.

At September 30, 2006, investments in deposits, bonds, notes, short-term paper, provincial corporation debentures and loans totalled 32.8% of total portfolio investments or $5.051 billion compared to 33.3% o $4.993 billion at March 31, 2006.

Canadian Equity Investments

The Toronto Stock Exchange S&P/TSX Index, which measures the performance of Canada's largest companies, by market capitalization, increased by 1.9% for the quarter ending September 30, 2006. The index recovered from last quarter's decline of 3.5%, resulting in an overall net decrease of 1.7% over the past six months.

S&P/TSX Composite Index



Canadian Public Equities	Actual Return %	Benchmark S&P/TSX Index %	Over (Under) bps
Current Quarter	2.6	1.9	70
Six Months	(0.8)	(1.7)	90
Five Years (annualized)	14.2	13.6	60

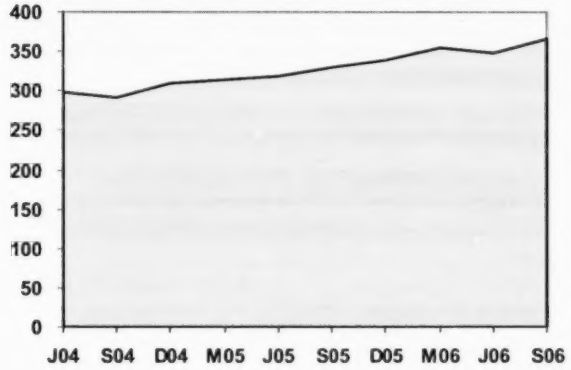
The Fund's Canadian equity portfolio is held in various investment pools, which are managed by internal and external managers. Over the quarter the Fund's actual return from Canadian equities increased by 2.6%, 70 basis points better than the benchmark return from the S&P/TSX Index. Over six months, the Fund's return from Canadian equities was negative 0.8%, 90 basis points better than the benchmark return of negative 1.7%.

At September 30, 2006, investments in Canadian public equities totalled 16.2% or $2.499 billion of the Fund investment portfolio compared to 17.0% or $2.572 billion at March 31, 2006.

United States Equity Investments

The U.S. equity market closed out the quarter posting a negative return. The Standard & Poor's 1500 Index, S&P 1500, which measures the performance of the largest 1,500 U.S. companies, increased by 4.9% in Canadian dollars.

S&P 1500 Index



US Public Equities	Actual Return %	Benchmark S&P 1500 Index* %	Over (Under) bps
Current Quarter	5.0	4.9	10
Six Months	(1.5)	(1.5)	0
Five Years (annualized)	0.0	(0.1)	10

* Effective April 1, 2004, the benchmark return for US equities changed to the S&P 1500 Index from the S&P 500 Index. The S&P 1500 Index provides a broader coverage of US equities to include smaller capitalization stocks. The S&P 1500 Index covers approximately 90% of US publicly traded equities.

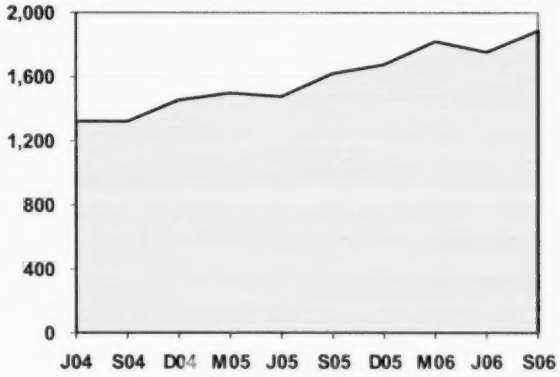
The Fund's actual rate of return over the quarter from U.S. equities was 5.0% in Canadian dollars or 10 basis points better than S&P 1500 Index. Over six months, the Fund's U.S. equity portfolio returned negative 1.5%, the same as the benchmark.

At September 30 2006, investments in U.S. equities totalled 16.9% or $2.616 billion of the Fund investment portfolio compared to 16.8% or $2.513 billion at March 31, 2006.

Non-North American Equity Investments

The Morgan Stanley Capital International Index for Europe, Australasia, and the Far East, MSCI EAFE Index, measures the performance of approximately 1,200 companies on 25 stock exchanges around the world. Over the quarter, the index increased 4.0% in Canadian dollars.

MSCI EAFE Index



Non-North American	Actual Return %	Benchmark MSCI EAFE Index %	Over (Under) bps
Current Quarter	4.0	4.0	0
Six Months	(1.3)	0.0	(130)
Five Years (annualized)	7.4	6.6	80

The Fund's actual return from non-North American equities was 4.0%, the same as the MSCI EAFE Index. Over six months the Fund's non-North American equity portfolio returned negative 1.3%, 130 basis points less than the benchmark MSCI EAFE Index.

At September 30, 2006, investments in non-North American equities totalled 16.3% or $2.504 billion of the Fund investment portfolio compared to 16.8% or $2.520 billion at March 31, 2006.

Real Estate Investments

The Fund's real estate investments are held in the internally managed Private Real Estate Pool and the Foreign Private Real Estate Pool. Real estate investments earned 4.7% over the quarter and 8.8% over the past six months.

Real estate	Actual Return %	Benchmark IPD Large Institutional All Property Index* %	Over (Under) bps
Current Quarter	4.7	4.8	(10)
Six Months	8.8	7.6	120
Five Years (annualized)	13.5	10.7	280

* Amounts shown are estimated and may vary significantly from actual amounts when received. Prior to June 1, 2005, the benchmark for real estate was CPI plus 5%. Prior to April 1, 2002, the benchmark was the Russell Canadian Property Index.

Approximately 50% of the real estate portfolio is invested in retail, 34% in office, 11% in industrial and 5% residential. Approximately 61% of the real estate holdings are located in Ontario, 28% in Alberta, 9% in Quebec and 2% in British Columbia.

At September 30, 2006, investments in real estate totalled 10.1% or $1.554 billion of the Fund investment portfolio compared to 9.6% or $1.441 billion at March 31, 2006.

Absolute Return Strategies

Absolute return strategy investments encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Over the quarter, absolute return strategies generated a positive return of 1.3%, 90 basis points better than the benchmark Hedge Fund Research Inc. (HFRX) Global Hedged Index. Over six months, absolute return strategies returned 2.6%, 310 basis points better than the benchmark.

Absolute Return Strategies	Actual Return %	Benchmark HFRX Global Hedged Index %	Over (Under) bps
Current Quarter	1.3	0.4	90
Six Months	2.6	(0.5)	310
Five Years (annualized)	n/a	n/a	-

At September 30, 2006, investments in the Absolute Return Strategies Pool totalled 4.2% or $647 million of total Fund investments compared to 3.8% or $572 million at March 31, 2006.

Private Equity Investments

At September 30, 2006, private equity investments comprised 2.2% or $339 million of the Fund's total investment portfolio compared to 1.7% or $258 million at March 31, 2006. During the quarter, private equity investments returned 1.4%, 60 basis points less than the benchmark Consumer Price Index (CPI) plus 8%. Over six months private equity investments returned 4.8%, 70 basis points less than the benchmark.

Private Equity	Actual Return %	Benchmark CPI plus 8% %	Over (Under) bps
Current Quarter	1.4	2.0	(60)
Six Months	4.8	5.5	(70)
Five Years (annualized)	n/a	n/a	-

Private Income Investments

Private income investments comprised 0.9% or $142 million of overall investments compared to 0.6% or $82 million at March 31, 2006. Private income investments returned 1.1% this quarter, 40 basis points less than the benchmark CPI plus 6%. Over six months private income investments returned 4.3%, 20 basis points less than the benchmark.

Private Income	Actual Return %	Benchmark CPI plus 6% %	Over (Under) bps
Current Quarter	1.1	1.5	(40)
Six Months	4.3	4.5	(20)
Five Years (annualized)	n/a	n/a	-

Timberland Investments

The timberland investment is a partnership interest in forestry land in British Columbia.

Timberland investments comprise 0.4% or $54 million of overall investments compared to 0.4% or $56 million at March 31, 2006. Timberland investments returned 0.8% this quarter, 30 basis points less than the benchmark CPI plus 4%. Over six months, timberland investments returned 3.0%, 60 basis points less than the benchmark.

Timberland	Actual Return %	Benchmark CPI plus 4% %	Over (Under) bps
Current Quarter	0.8	1.1	(30)
Six Months	3.0	3.6	(60)
Five Years (annualized)	n/a	n/a	-

Historical Summary of Operations
May 19, 1976 to September 30, 2006
(millions)

	Net Income (loss)	Transfers From GRF	Transfers To GRF	Fund Equity (a)
1976-77	$ 88	$ 2,120	$ (36)	$ 2,172
1977-78	194	931	(87)	3,210
1978-79	294	1,059	(132)	4,431
1979-80	343	1,332	(478)	5,628
1980-81	724	1,445	(227)	7,570
1981-82	1,007	1,434	(350)	9,661
1982-83	1,482	1,370	(1,162)	11,351
1983-84	1,467	720	(1,799)	11,739
1984-85	1,575	736	(1,803)	12,247
1985-86	1,667	685	(1,907)	12,692
1986-87	1,445	217	(1,673)	12,681
1987-88	1,353	-	(1,482)	12,552
1988-89	1,252	-	(1,407)	12,397
1989-90	1,244	-	(1,378)	12,263
1990-91	1,337	-	(1,487)	12,113
1991-92	1,382	-	(1,466)	12,029
1992-93	785	-	(869)	11,945
1993-94	1,103	-	(1,174)	11,874
1994-95	914	-	(963)	11,825
1995-96	1,046	-	(1,046)	11,825
1996-97	932	-	(756)	12,001
1997-98	947	-	(922)	12,026
1998-99	932	-	(932)	12,026
1999-00	1,169	-	(939)	12,256
2000-01	706	-	(706)	12,256
2001-02	206	-	(206)	12,256
2002-03	(894)	-	-	11,362
2003-04	1,133		(1,133)	11,362
2004-05	1,092	-	(1,092)	11,362
2005-06	1,397	1,750	(1,015)	13,494
2006-07 (six months)	503	650	(361)	14,286
TOTAL	**$ 28,825**	**$ 14,449**	**$ (28,988)**	**$ 14,286**

(a) at cost

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(unaudited)

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STATEMENT OF FINANCIAL POSITION

September 30, 2006 (unaudited)
(thousands)

	September 30, 2006	March 31, 2006
Assets		
Portfolio investments (Note 3)	$ 14,299,995	$ 13,681,630
Accrued investment income	25,327	26,433
Administration expense receivable	-	22
	$ 14,325,322	$ 13,708,085
Liabilities		
Accounts payable	$ -	$ 135,842
Due to the General Revenue Fund	39,070	77,684
	39,070	213,526
Net Assets (Note 6)	14,286,252	13,494,559
	$ 14,325,322	$ 13,708,085

STATEMENT OF OPERATIONS

For the Six Months ended September 30, 2006 (unaudited)
(thousands)

	Three Months Ended Sep. 30,		Six Months Ended Sep. 30,	
	2006	2005	2006	2005
Net income (Note 7)	$ 330,948	$ 325,048	$ 503,079	$ 646,092
Transfers to the General Revenue Fund (Note 6c)	(260,101)	(233,994)	(361,386)	(498,487)
Amount retained for inflation proofing (Note 6c)	70,847	91,054	141,693	147,605
Transfers from the General Revenue Fund (Notes 6a & 6b)	650,000	-	650,000	-
Change in net assets	720,847	91,054	791,693	147,605
Net Assets at beginning of period	13,565,405	11,418,993	13,494,559	11,362,442
Net Assets at end of period	$14,286,252	$11,510,047	$14,286,252	$11,510,047

The accompanying notes and schedules are part of these financial statements.

STATEMENT OF CASH FLOWS

For the Six Months ended September 30, 2006 (unaudited)
(thousands)

	Three Months Ended Sep. 30,		Six Months Ended Sep. 30,	
	2006	2005	2006	2005
Operating transactions				
Net income	$ 330,948	$ 325,048	$ 503,079	$ 646,092
Non-cash items included in net income	(23,058)	(26,701)	(40,715)	(89,953)
	307,890	298,347	462,364	556,139
Decrease (increase) in accounts receivable	72,034	(14,223)	1,128	(14,192)
Increase (decrease) in accounts payable	(72,670)	(2,849)	(135,842)	8,999
Cash provided by operating transactions	307,254	281,275	327,650	550,946
Investing transactions				
Proceeds from disposals, repayments and redemptions of investments	193,160	272,770	414,960	603,038
Purchase of investments	(701,043)	(532,523)	(1,124,971)	(1,133,715)
Cash applied to investing transactions	(507,883)	(259,753)	(710,011)	(530,677)
Transfers				
Transfers from the General Revenue Fund	650,000	-	650,000	-
Transfers to the General Revenue Fund	(260,101)	(233,994)	(361,386)	(498,487)
Increase (decrease) in amounts due to the General Revenue Fund	(139,899)	233,994	(38,614)	498,487
Cash provided by transfers	250,000	-	250,000	-
Increase (decrease) in cash	49,371	21,522	(132,361)	20,269
Cash at beginning of period	47,288	70,106	229,020	71,359
Cash at end of period	$ 96,659	$ 91,628	$ 96,659	$ 91,628
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 96,659	$ 91,628	$ 96,659	$ 91,628

The accompanying notes and schedules are part of these financial statements.

Notes to the Financial Statements

September 30, 2006 (unaudited)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund (the Fund) operates under the authority of the *Alberta Heritage Savings Trust Fund Act (the Act)*, Chapter A-23, Revised Statutes of Alberta 2000, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

The accounting policies of significance to the Fund are as follows:

(a) Portfolio Investments

Fixed-income securities, public and private equities, real estate, absolute return strategies, timberland and private income investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income, as reported in Note 7, is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

Income and expenses from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

(unaudited)

Note 2 (continued)

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures, forward foreign exchange contracts and credit default swap contracts, are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private income, private real estate, loans, absolute return strategies and timberland investments. The fair values of these investments are based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(i) Public fixed-income securities and equities are valued at the period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Mortgages, provincial corporation debentures and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analysis.

(iv) The fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

(unaudited)

Note 2 (continued)

(v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

(vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

(vii) The fair value of timberland investments is appraised annually by independent third party evaluators.

(viii) The fair value of deposits, receivables, accrued interest and payables is estimated to approximate their book values.

(ix) The fair value of investments and any other assets and liabilities denominated in a foreign currency is translated at the period-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices.

(unaudited)

NOTE 3 PORTFOLIO INVESTMENTS

	September 30, 2006			March 31, 2006		
	Cost	Fair Value	%	Cost	Fair Value	%
	(thousands)					
Fixed-Income Securities						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 96,659	$ 96,659	0.6	$ 229,020	$ 229,020	1.5
Canadian Dollar Public Bond Pool (b)	4,031,129	4,093,931	26.6	3,877,585	3,888,854	25.9
Private Mortgage Pool (c)	588,333	602,953	3.9	584,319	591,638	3.9
Provincial corporation debentures, directly held (d)	42,745	58,183	0.4	80,927	113,925	0.8
Loans, directly held (e)	102,309	102,309	0.7	102,219	102,219	0.7
Currency Alpha Pool (f)	28,163	29,383	0.2	16,751	17,209	0.1
Tactical Asset Pool (g)	67,829	67,953	0.4	28,921	27,947	0.2
Bonds, notes & short-term paper, directly held	-	-	-	22,315	22,358	0.2
	4,957,167	**5,051,371**	**32.8**	**4,942,057**	**4,993,170**	**33.3**
Public Equities						
Canadian						
Domestic Passive Equity Pooled Fund (h)	947,192	998,755	6.5	1,032,351	1,131,293	7.5
Canadian Pooled Equity Fund (i)	551,251	679,214	4.4	493,715	666,827	4.4
Canadian Equity Enhanced Index Pool (j)	300,339	328,218	2.1	278,441	332,581	2.2
Canadian Large Cap Equity Pool (k)	246,640	235,743	1.5	230,719	231,602	1.5
Growing Equity Income Pool (l)	135,831	152,209	1.0	106,187	150,261	1.0
Canadian Multi-Cap Pool (m)	276,589	273,552	1.8	203,525	205,931	1.4
Tactical Asset Pool Canadian futures contracts (g)	(168,566)	(168,566)	(1.1)	(146,080)	(146,080)	(1.0)
	2,289,276	**2,499,125**	**16.2**	**2,198,858**	**2,572,415**	**17.0**
United States						
S&P 500 Index Fund (n)	1,436,692	1,589,423	10.3	1,472,667	1,629,524	10.9
US Small/Mid Cap Equity Pool (o)	282,267	296,304	1.9	266,559	307,170	2.1
Portable Alpha United States Equity Pool (p)	527,451	515,416	3.3	386,366	382,057	2.5
Growing Equity Income Pool (l)	46,870	46,007	0.3	47,759	46,552	0.3
Tactical Asset Pool US futures contracts (g)	168,841	168,841	1.1	147,487	147,487	1.0
	2,462,121	**2,615,991**	**16.9**	**2,320,838**	**2,512,790**	**16.8**
Non-North American						
EAFE Active Equity Pool (q)	1,728,112	1,852,181	12.0	1,615,625	1,867,616	12.4
EAFE Passive Equity Pool (r)	174,653	238,751	1.6	169,033	238,566	1.6
Emerging Markets Equity Pool (s)	128,837	151,924	1.0	116,466	159,782	1.1
EAFE Structured Equity Pool (r)	269,878	261,144	1.7	264,167	253,781	1.7
	2,301,480	**2,504,000**	**16.3**	**2,165,291**	**2,519,745**	**16.8**
Real Estate						
Private Real Estate Pool (t)	1,084,401	1,506,334	9.8	1,055,710	1,396,862	9.3
Foreign Private Real Estate Pool (u)	49,860	48,164	0.3	44,916	44,042	0.3
	1,134,261	**1,554,498**	**10.1**	**1,100,626**	**1,440,904**	**9.6**
Absolute Return Strategies (v)	**650,292**	**646,978**	**4.2**	**569,151**	**571,720**	**3.8**
Private Equities (w)	**306,128**	**339,081**	**2.2**	**243,179**	**258,322**	**1.7**
Private Income (w)	**140,470**	**141,947**	**0.9**	**81,688**	**81,948**	**0.6**
Timberland (x)	**58,800**	**54,020**	**0.4**	**59,942**	**56,454**	**0.4**
Total Investments (y)	**$ 14,299,995**	**$ 15,407,011**	**100.0**	**$ 13,681,630**	**$ 15,007,468**	**100.0**

(unaudited)

Note 3 (continued)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at September 30, 2006, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	September 30, 2006	March 31, 2006
Absolute Return Strategy Pool	87.8	88.5
Canadian Dollar Public Bond Pool	40.4	40.2
Canadian Equity Enhanced Index Pool	25.9	25.8
Canadian Large Cap Equity Pool	12.9	12.6
Canadian Multi-Cap Pool	45.5	56.9
Canadian Pooled Equity Fund	55.1	54.5
Currency Alpha Pool	37.2	28.9
Domestic Passive Equity Pooled Fund	44.4	42.3
EAFE Active Equity Pool	31.7	31.7
EAFE Passive Equity Pool	76.5	76.5
EAFE Structured Equity Pool	25.6	24.0
Emerging Markets Equity Pool	26.7	26.4
Foreign Private Equity Pool (02)	43.8	43.8
Foreign Private Equity Pool (05)	87.3	87.3
Foreign Private Real Estate Pool	87.1	87.1
Growing Equity Income Pool	56.6	55.8
Portable Alpha United States Equity Pool	84.2	87.9
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Equity Pool (02)	62.1	62.1
Private Equity Pool (04)	77.0	77.0
Private Income Pool	25.7	25.7
Private Income Pool 2	86.7	86.7
Private Mortgage Pool	43.1	43.4
Private Real Estate Pool	36.8	37.1
Standard & Poor's 500 Index Fund	74.8	71.8
Tactical Asset Allocation Pool	83.7	86.7
Timberland Pool	87.6	87.6
US Small/Mid Cap Equity Pool	25.8	25.2

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at September 30, 2006, securities held by the Fund have an average effective market yield of 4.37% per annum (March 31, 2006: 3.96% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at September 30, 2006, securities held by the Pool have an average effective market yield of 4.5% per annum (March 31, 2006: 4.7% per annum)

(unaudited)

Note 3 (continued)

and the following term structure based on principal amount: under 1 year: 2% (March 31, 2006: 2%); 1 to 5 years: 36% (March 31, 2006: 34%); 5 to 10 years: 32% (March 31, 2006: 33%); 10 to 20 years: 11% (March 31, 2006: 12%); and over 20 years: 19% (March 31, 2006: 19%).

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (93.6%) and provincial bond residuals (6.4%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at June 30, 2006, securities held by the Pool have an average effective market yield of 5.02% per annum (March 31, 2006: 5.27% per annum) and the following term structure based on principal amount: under 1 year: 5% (March 31, 2006: 2%); 1 to 5 years: 17% (March 31, 2006: 19%); 5 to 10 years: 50% (March 31, 2006: 50%); 10 to 20 years: 7% (March 31, 2006: 10%); and over 20 years: 21% (March 31, 2006: 19%).

(d) As at September 30, 2006, Provincial corporation debentures have an average effective market yield of 8.02% per annum (March 31, 2006: 8.00% per annum) and the following term structure based on principal amounts: 5 to 10 years: 100% (March 31, 2006: 100%).

(e) Investments in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at September 30, 2006, investment in loans, at cost, include the Ridley Grain loan amounting to $100,000 (March 31, 2006: $100,000) and the Vencap loan amounting to $2,309 (March 31, 2006: $2,219).

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $100,000 and deferred interest is repayable on or before July 31, 2015. Deferred interest at September 30, 2006 amounted to $90,161 (March 31, 2006: $90,161). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $52,588, is due July 2046 and bears no interest. The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.

(f) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(g) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At September 30, 2006, the Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contracts. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(unaudited)

Note 3 (continued)

(h) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(i) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection while remaining sector neutral.

(j) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

(k) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(l) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

(m) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (h)).

(n) Publicly traded U.S. equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 Index. The performance objective is to provide returns comparable to the total return of the S&P 500 Index over a four-year period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (h)).

(o) The U.S. Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(unaudited)

Note 3 (continued)

(p) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

(q) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-North American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

(r) The EAFE Passive Equity Pool and the EAFE Structured Equity Pool are managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicates the MSCI EAFE Index. The EAFE Structured Equity Pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The structured pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (h)).

(s) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the MSCI Emerging Markets Free (MSCI EMF) Index over a four-year period.

(t) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies, which have issued, to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(u) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(v) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

(w) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02, PEP04, the Foreign Private Equity Pool 2002 and the Foreign Private Equity Pool 2005. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool invests in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%.

(x) The Timberland Pool provides high current income and long investment horizons. The timberland investment is a partnership interest in forestry land in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.

(unaudited)

Note 3 (continued)

(y) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost after recording a writedown, it is management's best judgement, based on the cyclical nature of stock markets, that the decline in value is caused by short-term market trends and is temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at September 30, 2006:

	Maturity			September 30, 2006		March 31, 2006	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
				(thousands)			
Equity index swap contracts	77%	23%	-	$ 2,713,398	$ 42,677	$ 2,460,014	$ 45,423
Interest rate swap contracts	5%	53%	42%	2,839,442	(1,497)	1,053,569	(2,391)
Forward foreign exchange contracts	100%	-	-	1,978,022	(228)	1,554,419	(1,980)
Cross-currency interest rate swaps	18%	30%	52%	779,636	68,963	711,678	52,051
Credit default swap contracts	1%	11%	88%	1,159,882	(354)	1,298,187	2,984
Bond index swap contracts	100%	-	-	620,818	12,946	236,998	24,470
Equity index futures contracts	100%	-	-	952,113	37,296	782,574	15,652
				$ 11,043,311	$ 159,803	$ 8,097,439	$ 136,209

(a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

(b) The method of determining the fair value of derivative contracts is described in Note 2 (e).

(unaudited)

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2006-2009 Business Plan proposed the following asset mix policy for the Fund.

Public equities	45.0%
Fixed income securities	30.0%
Real estate	10.0%
Absolute return strategies	5.0%
Private equities	4.0%
Private income	4.0%
Timberland	2.0%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

(unaudited)

NOTE 6 NET ASSETS

Net assets represent the difference between the carrying value of assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers from (to) the General Revenue Fund (GRF) since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	September 30, 2006	March 31, 2006
	(thousands)	
Transfers from the General Revenue Fund		
Resource Revenue (1976-1987)	$ 12,049,324	$ 12,049,324
Access to the Future (a)	1,000,000	750,000
Voted Payments (b)	1,400,000	1,000,000
	14,449,324	13,799,324
Accumulated net income	28,824,671	28,321,592
Transfers to General Revenue Fund (c)		
Section 8(2) transfers		
Income	(26,456,301)	(25,953,222)
Amount Retained for Inflation-proofing	954,446	812,753
	(25,501,855)	(25,140,469)
Capital Expenditures (1976-1995) (d)	(3,485,888)	(3,485,888)
	(28,987,743)	(28,626,357)
Net Assets, at cost	**$ 14,286,252**	**$ 13,494,559**
Net Assets, at fair value	**$ 15,393,268**	**$ 14,820,397**

(a) Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the Fund. During the period, the Fund received $250 million on account of the *Access to the Future Act*.

(b) During the period, the Fund received $400 million from the GRF.

(c) In accordance with section 8(2) of the *Alberta Heritage Savings Trust Fund Act* (the Act), transfers to the GRF for the period total $361 million. The Act states that the net income of the Fund, totalling $503 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $142 million, shall be transferred to the GRF annually in a manner determined by the Minister of Finance. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund at the beginning of the year by the estimated percentage increase in the Canadian gross domestic product price index (GDP Index) for the period.

(d) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research Endowment Fund in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

(unaudited)

NOTE 7 NET INCOME

	Three Months Ended Sep. 30,		Six Months Ended Sep. 30,	
	2006	2005	2006	2005
	(thousands)			
Deposit and fixed-income securities	$ 84,640	$ 96,999	$ 149,694	$ 172,970
Canadian equities	102,215	172,557	135,115	273,858
United States equities	76,571	(5,668)	20,781	16,710
Non-North American equities	47,595	38,399	119,289	136,515
Real estate	23,459	18,953	46,112	38,225
Absolute return strategies	(3,792)	1,541	21,783	(2,934)
Private equities	(164)	(4,177)	4,152	(121)
Private income	855	6,304	4,051	11,338
Timberland	(231)	739	2,952	742
Investment income	**331,148**	**325,647**	**503,929**	**647,303**
Direct administrative expenses (Note 8)	(200)	(599)	(850)	(1,211)
Net income	**$ 330,948**	**$ 325,048**	**$ 503,079**	**$ 646,092**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

The investment income for the six months ended September 30, 2006 includes writedowns totalling $22,991 (September 30, 2005: $23,261).

NOTE 8 ADMINISTRATIVE EXPENSES

External management fees and internal management expenses are deducted directly from the income from pooled investment funds. Alberta Finance charges direct fund and internal management expenses on a cost recovery basis. External management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools.

	Three Months Ended Sep. 30,		Six Months Ended Sep. 30,	
	2006	2005	2006	2005
	(thousands)			
Direct fund expense (Note 7)	$ 200	$ 599	$ 850	$ 1,211
External management fees	10,951	9,389	21,045	18,018
Internal management expenses	453	1,305	1,642	2,431
Total	$ 11,604	$ 11,293	$ 23,537	$ 21,660
Percent of net assets at fair value	0.075%	0.090%	0.153%	0.172%

(unaudited)

NOTE 9 INVESTMENT PERFORMANCE

The following is a summary of the overall investment performance results attained by the Fund determined on a fair value basis:

	Three Month Return	Six Month Return	Five Year Compound Annualized Return
Time-weighted rates of return			
Overall actual return	4.1%	1.9%	8.0%
Benchmark return (1)(2)	3.9%	1.7%	6.7%

(1) The overall benchmark return for the three and six months ended September 30, 2006 is a product of the weighted average policy sector weights and the sector benchmark returns.

(2) The Fund is expected to generate a real rate of return of 4.5% over a moving five-year period based on the Fund's business plan. Over a five-year period, the annualized inflation rate was 2.2%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.7%.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

Alberta Heritage Savings Trust Fund
Alberta Finance – Communications
Room 434, 9515 - 107 Street
Edmonton, Alberta T5K 2C3
(780) 427-5364

www.albertaheritagefund.com

Alberta
Finance